

Auto Insurance Affordability: Cost Drivers in Michigan

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Shannon O'Brien

Insurance Research Council Advisory Board, Chairperson

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Executive Summary

The affordability of auto insurance is an important public issue, as nearly every state requires drivers to purchase a minimum amount of insurance. The Insurance Research Council (IRC) continues to examine affordability issues with this profile of Michigan, the third-least-affordable state, where the affordability index (auto insurance expenditures as a percentage of median household income) was 2.21 percent from 2013 through 2016, compared with the national average of 1.58 percent.

For decades, policymakers in Michigan have debated the costs and benefits of the state’s unique no-fault auto system, particularly the mandate that drivers purchase unlimited personal injury protection (PIP) coverage. The cost environment has deteriorated in recent years: from 2007 through 2015, Michigan moved up the ranking of states by average auto insurance expenditures (from eleventh to fourth). While debates continue in the state legislature, other solutions have been proposed. Some observers support a public referendum to spur change. (Similar referenda failed in 1992 and 1994.)¹ In Detroit, where costs are especially high, the mayor proposed creating a city-sponsored limited plan for residents and has since filed a lawsuit against the state over the lack of action on the issue.²

Policymakers across the country continue to debate the best approach to this issue. Regardless of whether the debate is about affordability at the national, state, or community level, any sustainable improvement will require an understanding of the factors that drive the cost of insurance.

Important Factors in the High Cost of Insurance in Michigan

- Extremely high average claim severity—With medical benefits being unlimited, the average amount paid for PIP claims in Michigan is dramatically higher than for countrywide PIP claims, driven by a small percentage of claims with extremely high claimed losses.
- Unrestrained medical costs—Because there is no ceiling on benefits and no fee schedule to control costs, the Michigan auto injury system creates opportunities for claim fraud and abuse and for the shifting of costs from other systems of paying for healthcare.
- Increasing frequency of liability claims—The rise in the frequency of bodily injury liability (BI) claims in Michigan indicates that the state’s uniquely strict no-fault threshold has weakened.
- Litigiousness—The number of lawsuits filed for PIP claims has been growing rapidly in Michigan.
- Influence of the Detroit area—Surveys of auto insurance quotes often cite Detroit as the most expensive city for auto insurance. Similar to patterns seen in many other states, claims from accidents in Michigan’s largest city are generally more likely to involve claiming behaviors associated with increased insurance costs, such as higher claimed losses, larger payments, and greater attorney involvement.

¹Fiona Kelliher and JC Reindl, “Dan Gilbert could fund auto insurance ballot measure,” *Detroit Free Press*, November 19, 2018, <https://www.freep.com/story/news/local/michigan/2018/11/19/dan-gilbert-no-fault-ballot/2052823002/> (accessed March 27, 2019).

²Christine Ferretti, “Duggan, Metro drivers sue over no-fault insurance law,” *The Detroit News*, August 23, 2018, <https://www.detroitnews.com/story/news/local/detroit-city/2018/08/23/duggan-drivers-sue-reforms-states-no-fault-law/1072008002/> (accessed March 27, 2019).

Overview of Michigan's Auto Insurance System

The Michigan auto insurance system is unique. Michigan drivers are required to purchase PIP coverage that provides unlimited lifetime medical benefits, reimbursement for up to three years of lost wages, and a daily allowance for replacement services for those injured while riding in a covered vehicle. After Michigan's unlimited coverage, the next-highest state-mandated PIP benefit is \$50,000 in New York. In addition to PIP coverage, drivers also must purchase BI liability insurance with minimum limits of \$20,000 per person and \$40,000 per accident.

The Michigan system is designed so that only those with serious injuries are eligible to file lawsuits or claims for general damages. The state's strict verbal threshold defines a serious injury as death, serious impairment of body function, or permanent serious disfigurement. The most commonly cited condition that overcame the tort threshold in 2012 was loss or impairment of a bodily function, present in 46 percent of BI claims in Michigan. In recent years, concerns have been raised about court decisions that have weakened the threshold by interpreting the definition of serious impairment to allow for "pain and suffering" claims by those with less-serious impairment.

In response to the unlimited benefits under Michigan's PIP system, the state established the Michigan Catastrophic Claims Association (MCCA) as a mechanism to spread the risk of catastrophic claims across the entire system. A per-vehicle charge is added to Michigan policies to allow the MCCA to provide payments for claims that meet certain severity thresholds. The annual assessment was \$192 per vehicle in 2018, increasing to \$220 in July 2019.

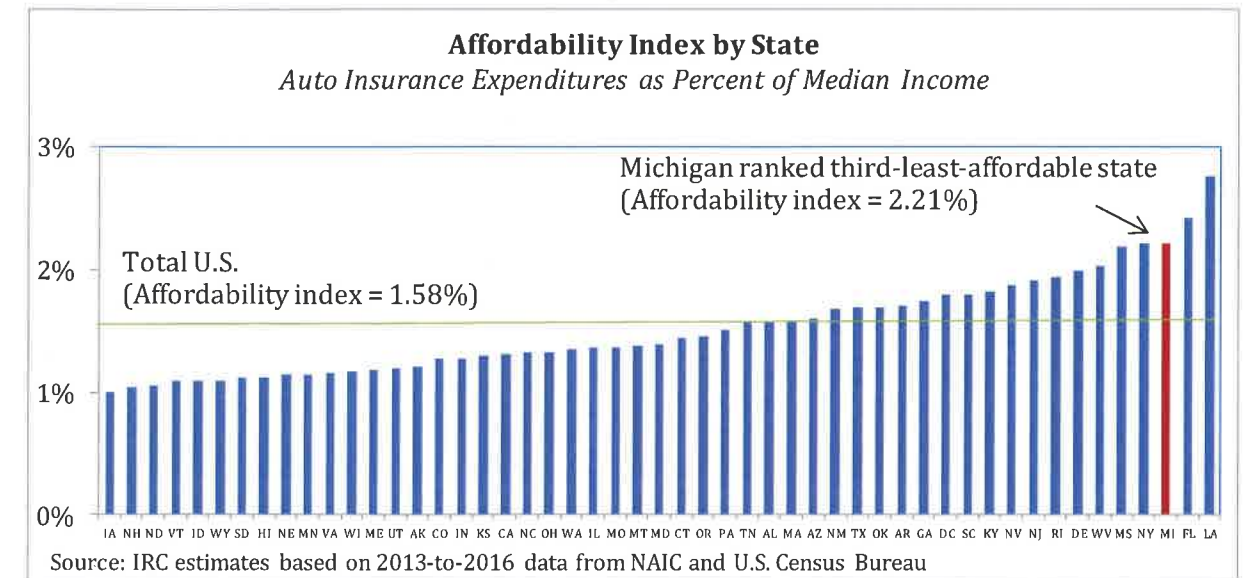
One unique PIP benefit in the state is attendant care. This benefit compensates professional caregivers or family members for time spent with very seriously injured persons who cannot be left alone, such as those with traumatic brain injuries. For the catastrophic claims covered by the MCCA, attendant care accounted for more than one-third of all expenses (18 percent for care provided by agencies and 18 percent for care provided by family members). In IRC's 2012-closed claim data, 9 percent of all Michigan PIP claims reported home healthcare expenses, compared with just 1 percent in other states. Critics of the current benefit structure cite attendant care as an easily abused benefit when provided by family members.

Michigan has one of the highest rates of uninsured motorists in the country, as measured by the ratio of uninsured motorist (UM) claim frequency to BI claim frequency. This ratio was 20 percent in 2015, compared with the countrywide ratio of 13 percent. Only three states (Florida, Mississippi, and New Mexico) had higher UM ratios in 2015. The Michigan Assigned Claims Plan provides PIP benefits to people injured in motor vehicle accidents when there is no automobile insurance available. In 2018, the total industry assessment to pay for this program was \$272 million, or \$37 per vehicle. The assessment grew 7 percent annualized from 2008 through 2018, significantly faster than the rate of inflation.

Until recently, Michigan was one of only 10 states without a state agency dedicated to fighting insurance fraud. In September 2018, the governor created a new division within the state's Department of Insurance and Financial Services (DIFS) to investigate acts of fraud in the insurance and financial sectors.³ However, because the fraud authority was created by executive order rather than by legislation, it has no funding mechanism.

³"Gov. Rick Snyder establishes anti-fraud unit within the Department of Insurance and Financial Services," MI Newswire, September 11, 2018, <https://www.michigan.gov/minewswire/0,4629,7-136-3452-477151-,00.html> (accessed April 3, 2019).

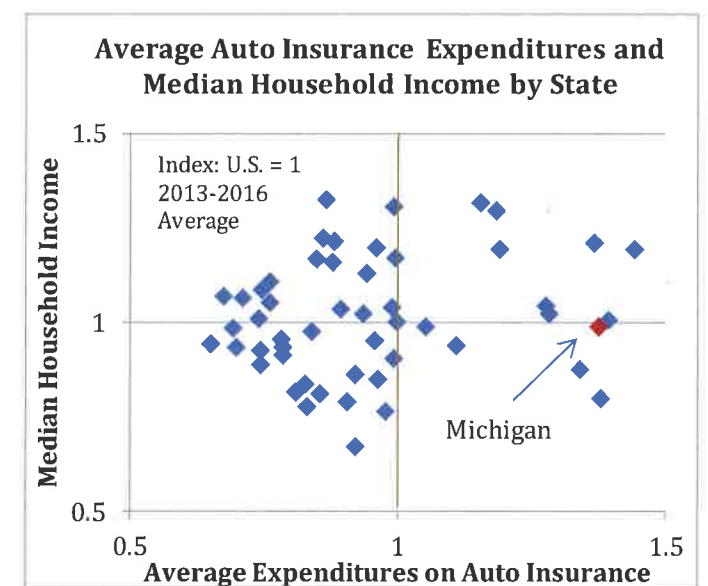
Michigan Ranks Third Among Least-Affordable States



As measured by the affordability index, Michigan is the third-least-affordable state for auto insurance, with an average index of 2.21 percent from 2013 through 2016. Countrywide, the index for that time frame was 1.60 percent.

Michigan's average auto insurance expenditure (total written premium for liability, collision, and comprehensive coverages divided by the liability exposures) was \$1,215 during that period, 38 percent higher than the U.S. average of \$882.⁴ Only three jurisdictions had higher expenditures (New Jersey, New York, and Louisiana). Moreover, average expenditures in Michigan grew 5 percent annualized from 2011 through 2016, faster than in any other state.

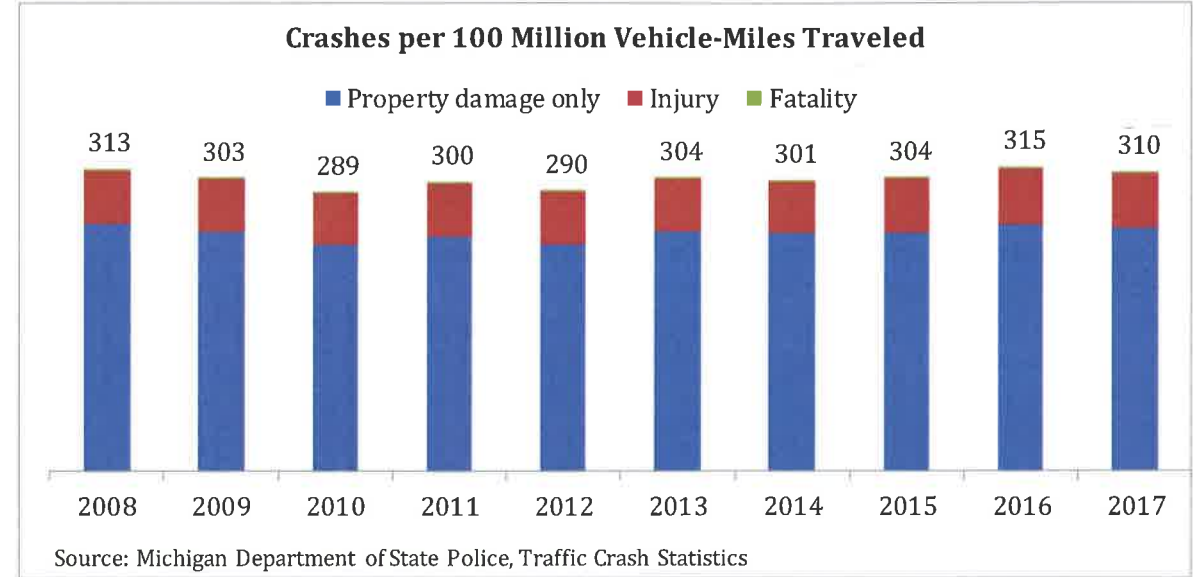
In 2017, the Federal Insurance Office (FIO) found that 72 percent of residents in Michigan's majority-minority or low- to moderate-income ZIP codes had an affordability index greater than 2 percent.⁵ Countrywide, the percentage of such residents with an index above 2 percent was much lower at 16 percent.



⁴"Auto Insurance Database Report 2014/2015," National Association of Insurance Commissioners, December 2017, www.naic.org/prod_serv/AUT-PB-14.pdf (accessed March 29, 2019).

⁵"Study on the Affordability of Personal Automobile Insurance," FIO, January 2017, pp.12-13, www.treasury.gov/initiatives/fio/reports-and-notices/Documents/FINAL%20Auto%20Affordability%20Study_web.pdf (accessed March 29, 2019).

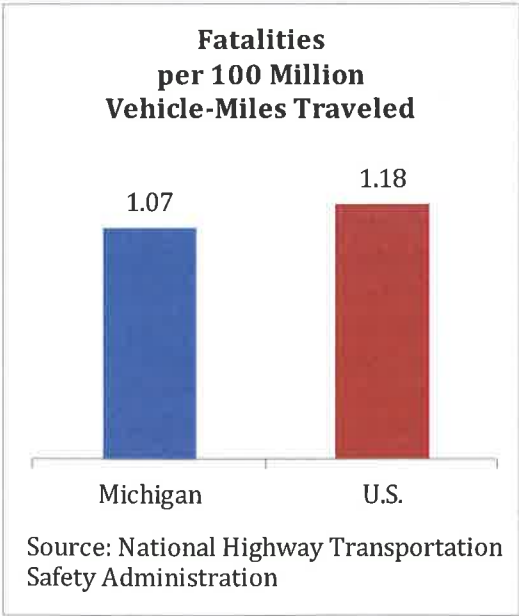
Accident Rates in Line With National Averages



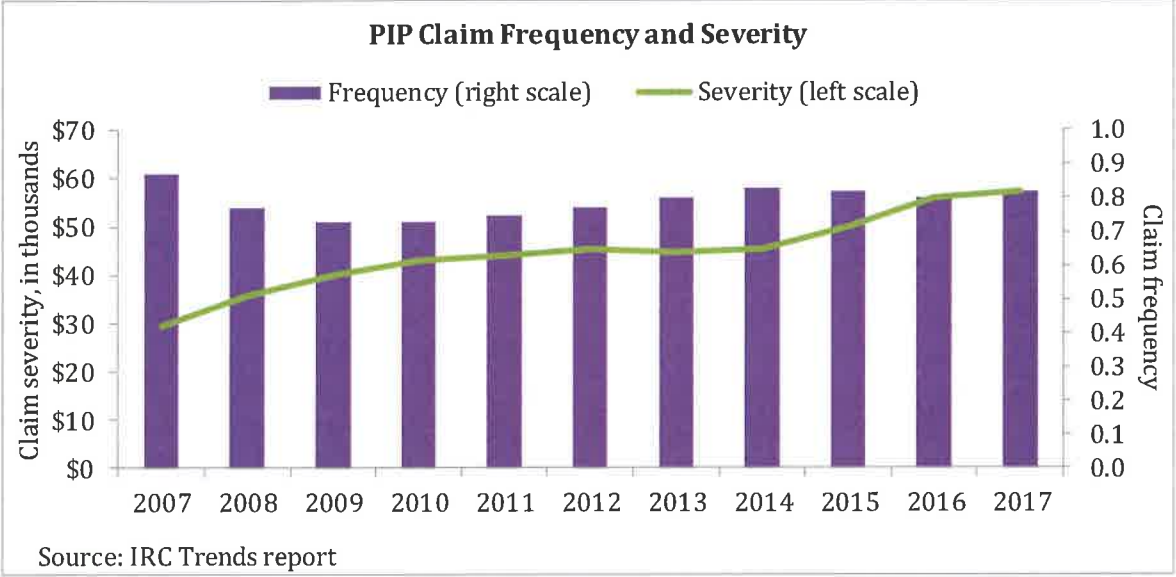
Unlike some other states with auto insurance affordability issues, Michigan’s auto accident rates, and therefore its claim frequency rates, are below countrywide averages. According to government data, Michigan had a rate of motor vehicle fatalities in 2016 of 1.07 per 100 million vehicle-miles traveled, 10 percent lower than the 1.18 rate for the U.S. as a whole.

According to statistics from the Michigan State Police, the number of crashes in Michigan changed little from 2008 through 2017. When adjusted for the amount of vehicle-miles traveled in the state, the number of crashes fell slightly from 313 per 100 million vehicle-miles traveled in 2008 to 310 in 2017. The number of vehicle-miles and crashes can both be affected by economic conditions. The recession that began in 2007 hit Michigan especially hard, and the sluggishness of the recovery likely held down traffic statistics for several years.

In Michigan’s unique environment, property damage claims are settled in a no-fault system. As a result, comparisons of the state’s trends in property damage liability or collision claims cannot provide a meaningful look at differences in accident frequency.



High Average Loss Costs for PIP Claims in Michigan



Consistent with lower-than-average crash rates, Michigan shows lower PIP claim frequency rates than the rest of the country: 0.82 claims per 100 earned vehicle-years in 2017, compared with 1.27 countrywide. From 2007 through 2017, PIP claim frequency declined 1 percent annualized, with a significant dip during the recession that was followed by slow growth.

The difference in frequency is eclipsed by the magnitude of PIP claim severity in a system with unlimited medical benefits. In 2017, the average PIP claim severity in Michigan was more than 6 times the countrywide level. Moreover, PIP claim severity increased nearly 7 percent annualized from 2007 through 2017, nearly double the countrywide rate.

Average loss cost is a function of how often claims are filed (claim frequency) and how large those claims are (claim severity). For Michigan PIP claims, it is vastly higher than the countrywide average. In 2017, the average payment per vehicle, including those not involved in accidents, was \$468 in Michigan, more than four times the countrywide average. Moreover, PIP average loss costs have increased 6 percent annualized from 2007 through 2017, compared with 3 percent annualized growth countrywide.

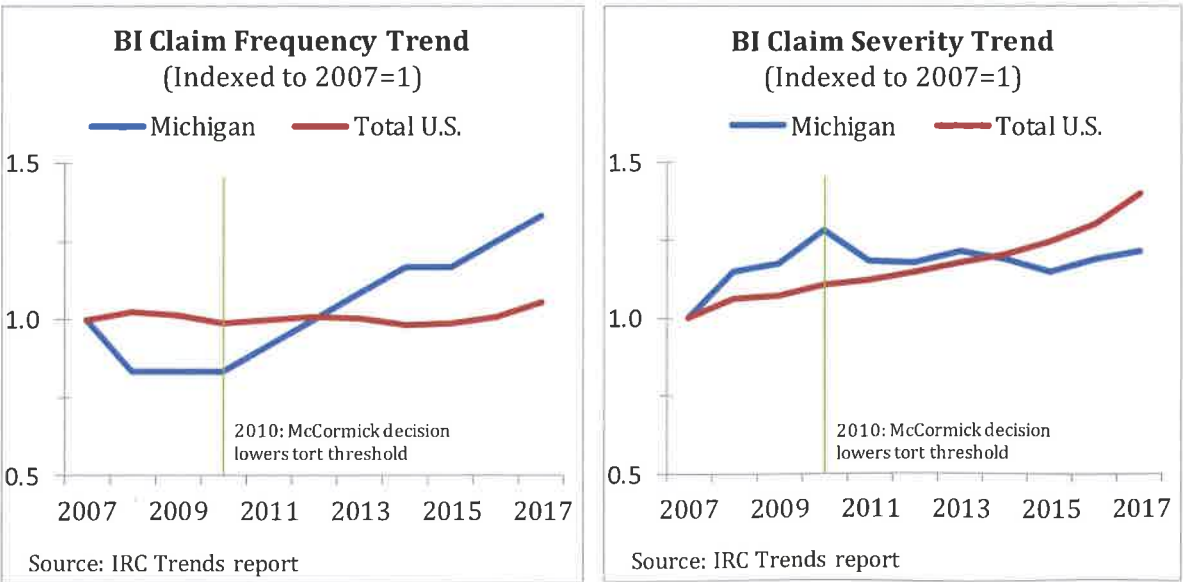


BI Claim Frequency Rising and Pushing Up BI Loss Costs

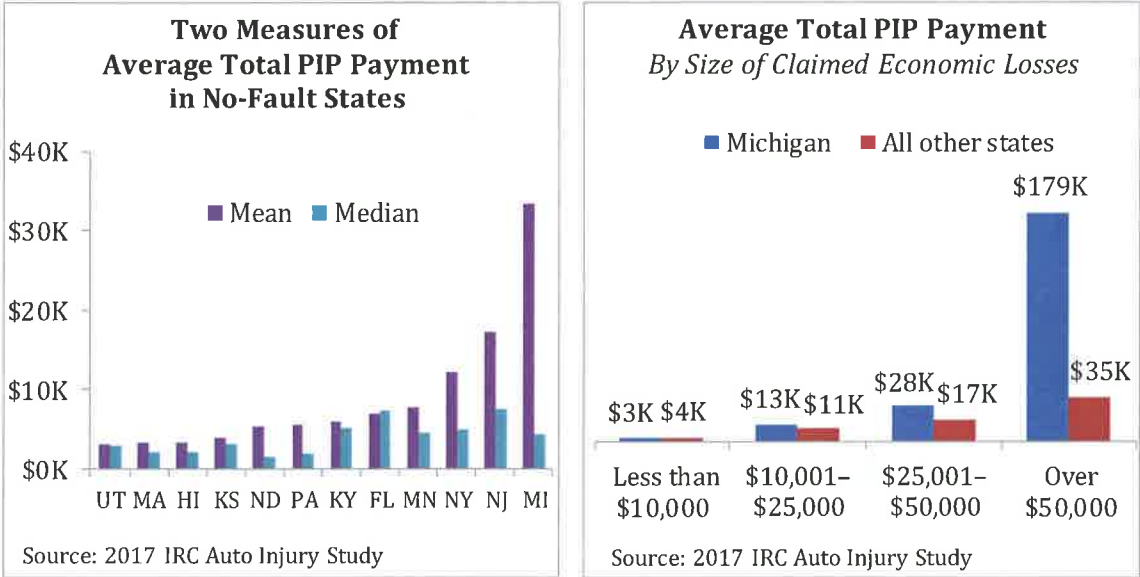
Michigan’s no-fault law includes the strictest tort threshold in the country, designed to allow only seriously injured claimants to file BI liability claims and be eligible to receive “pain and suffering” awards. Because of this, Michigan’s BI claim environment features very low claim frequency and very high claim severity. The combination results in average loss costs for BI claims that are considerably lower than the national average. In 2017, the BI average loss cost in Michigan was \$73 per insured vehicle, about half of the countrywide figure. However, from 2007 through 2017, annualized growth in the BI average loss cost in Michigan outpaced average growth in the U.S. (5 percent compared with 3 percent). Increased BI claim frequency is mostly to blame.

To facilitate comparisons between Michigan and countrywide trends over time, BI claim frequency and claim severity are indexed to equal 1 in 2007. In both Michigan and the U.S. as a whole, BI claim frequency rates are down significantly from their peaks in the mid-1990s, reflecting a long-term trend toward safer vehicles. However, the patterns have diverged in recent years. For the U.S. as a whole, BI claim frequency was relatively stable from 2007 through 2017. In Michigan, claim frequency dipped from 2007 to 2010 and then began to move sharply upward. From 2010 through 2017, claim frequency increased 7 percent annualized. BI claim severity followed the opposite pattern, increasing from 2007 to a peak in 2010 and then declining slightly. Countrywide, BI claim severity grew steadily over this period.

The increased frequency and decreased severity of BI liability claims suggests that Michigan’s strict verbal threshold has loosened. In a 2010 decision, *McCormick v. Carrier*, the Michigan Supreme Court overturned a previous decision and in effect expanded the definition of “serious impairment of body function,” the most commonly used criteria for overcoming the no-fault threshold that bars claimants without serious injuries from filing to receive pain and suffering awards.

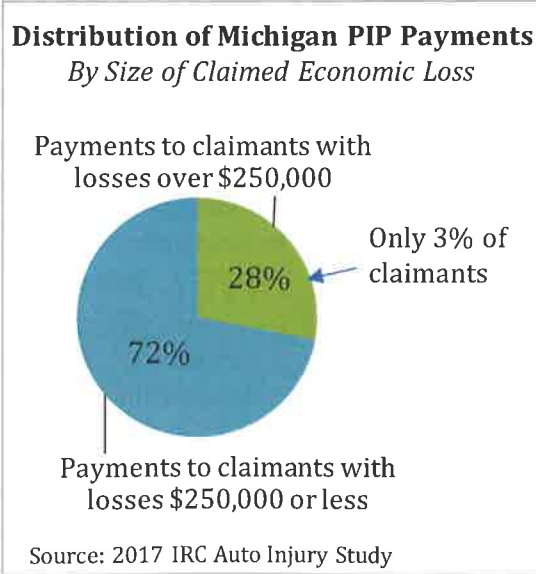


Impact of Very Large PIP Claims



Unlimited medical benefits and the subsequent large claims at the upper end of the payment distribution give Michigan the highest average payment for PIP claims among no-fault states. Among claims in IRC’s 2017 closed-claim study, Michigan’s mean amount paid for PIP claims was more than double that of the next highest no-fault state (New Jersey) and 10 times the mean payment in the lowest four states. Because the very large claims in Michigan skew the data, the comparison looks quite different using median analysis instead of mean. The median payment among 2017 PIP claims in Michigan was actually lower than the median in five other no-fault states and the median for all no-fault states combined.

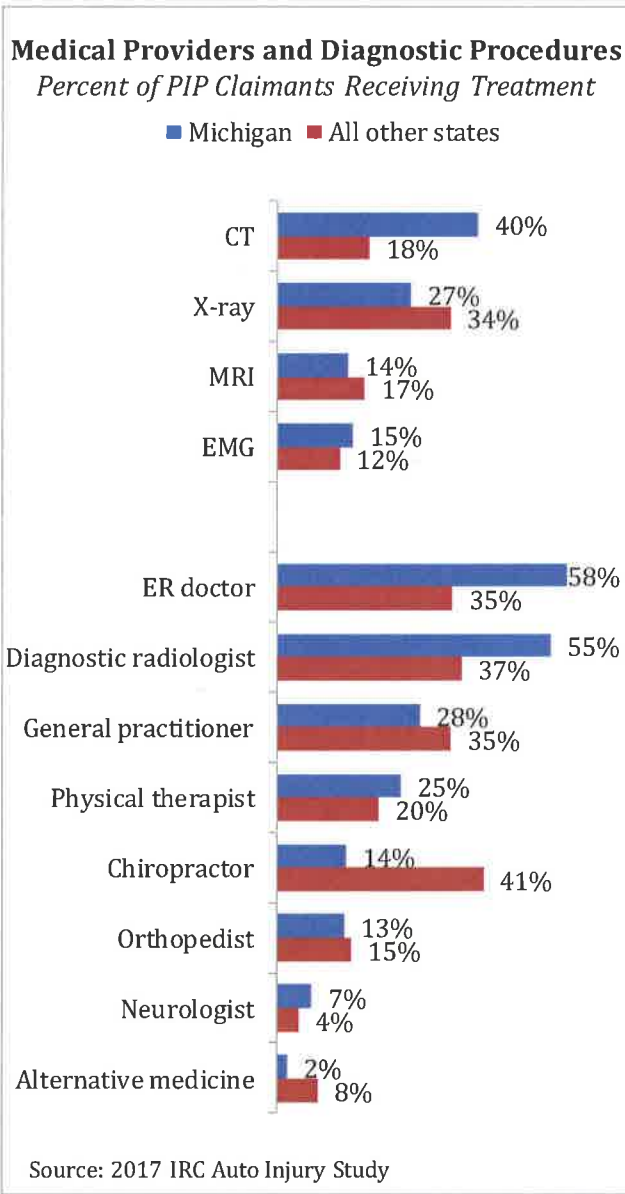
Another way to look at the impact of large claims is to examine the average payment for different levels of claimed economic loss. Among claimants with less than \$10,000 in claimed medical expenses, lost wages, and other expenses, the average PIP payment in Michigan was actually lower than in other states. For claimants with losses between \$10,000 and \$50,000, the Michigan average was moderately higher. Among claimants with economic losses above \$50,000, the average PIP payment in Michigan was five times the payment in all other states (\$179,110 compared with \$35,000).



At the extreme end of the payment distribution, claimants with more than \$250,000 in claimed economic losses accounted for just 3 percent of Michigan PIP claimants in 2017. In other words, a no-fault system with limits of \$250,000 would have sufficiently covered 97 percent of claimants. In 2017, this top 3 percent of claimants accounted for 28 percent of total PIP payments.

Expensive Medical Treatment in Michigan PIP Claims

The unlimited medical benefits in Michigan lead to differences in the profile of Michigan claimants. Previous IRC research showed that Michigan claimants were more likely than those in other states to experience some degree of temporary or permanent disability and to experience 10 or more days in which they were unable to perform their usual daily activities.⁶ As a result, some significant differences existed in medical treatment reported. Moreover, many no-fault states have established fee schedules for medical services covered under PIP plans, with reimbursement amount usually tied to a workers' compensation or Medicare fee schedule. Michigan's PIP system does not include any such mechanism



to help control cost or utilization, creating the opportunity for significant cost-shifting from other types of healthcare coverage.

Looking at differences in medical utilization, Michigan claimants were somewhat less likely to have x-rays and significantly more likely to receive computerized tomography (CT) scans. Forty percent of Michigan PIP claimants received CT scans in 2017, more than double the rate among PIP claimants in the rest of the country. One Michigan PIP study found that the reimbursement for a neck CT was \$262 under Medicare, \$419 under the state's workers' compensation schedule, and \$1,820 under no-fault.⁷

The most commonly used medical professional was an emergency room (ER) doctor; 58 percent of Michigan claimants were treated by an ER doctor, compared with 35 percent of claimants elsewhere. Corresponding to the high utilization of CTs, the use of diagnostic radiologists was significantly higher in Michigan: 55 percent compared with 37 percent in other states. Chiropractic and alternative medical treatment were less common in Michigan; 14 percent of Michigan claimants received chiropractic treatment, compared with 41 percent in other states.

More research is needed to develop a more thorough and current understanding of the differentials in medical pricing and incentives for cost shifting and claim shifting.

⁶Insurance Research Council, *Affordability in Auto Injury Insurance: Cost Drivers in Twelve Jurisdictions* (Malvern, Pa.: Insurance Research Council, 2016), p. 39.

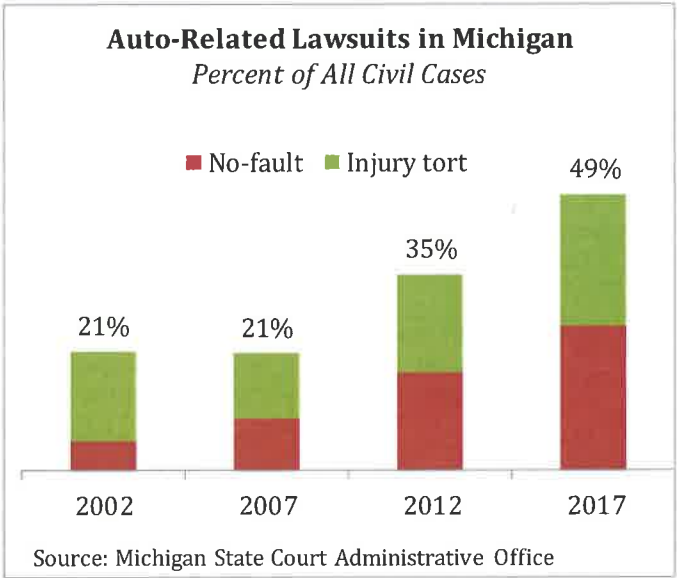
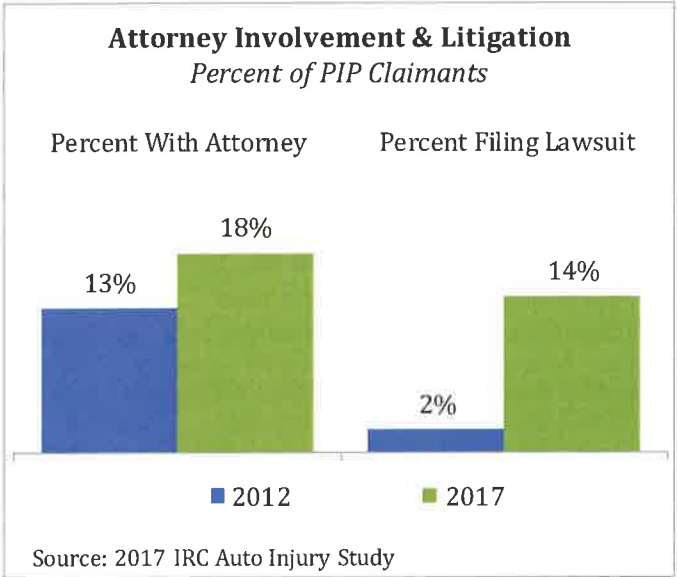
⁷Citizens Research Council of Michigan, *Medical Costs of No-Fault Automobile Insurance* (Livonia, Mich.: Citizens Research Council, 2013), p. 7.

Attorney Involvement and Litigation on the Rise

Previous IRC research has shown that attorney involvement in auto injury claims is often associated with factors that increase insurance costs.⁸ The rate of attorney involvement and litigation in PIP claims in Michigan has historically been lower than in many other no-fault states, most notably Florida and New York. However, the percentage of PIP claimants with attorneys has been increasing rapidly in recent years. It rose from 13 percent in 2012 to 18 percent in 2017. The increase in lawsuits filed has been even more dramatic, rising from 2 percent in 2012 to 14 percent in 2017.

The percentage of claims with attorney involvement is typically higher than the percentage with lawsuits. An IRC survey of auto injury claimants countrywide found that several other services provided by attorneys were more common than filing lawsuits.⁹ These included filing insurance claims on the claimant's behalf, negotiating settlements with the other driver's insurer or the claimant's own insurer, helping to arrange medical-bill payment while the claim was pending, and advising which doctors the claimant should use.

Records from the state's court system confirm the trend of increasing PIP litigation. According to statistics from the Michigan State Court Administrative Office, the number of auto-related lawsuits increased 78 percent from 2002 through 2017. Most of that increase was from a flood of no-fault cases. In 2002, lawsuits over no-fault insurance were fairly uncommon, accounting for just 5 percent of all civil cases. Most auto-related lawsuits involved injury tort claims. The number of no-fault cases more than tripled over the next 15 years, accounting for 26 percent of all civil cases in 2017. Nearly half of the system's civil caseload stemmed from auto-related cases.



⁸Insurance Research Council, *Attorney Involvement in Auto Injury Claims*, (Malvern, Pa.: Insurance Research Council, 2014), pp. 21-27.

⁹Insurance Research Council, *Motivation for Attorney Involvement in Auto Injury Claims*, (Malvern, Pa.: Insurance Research Council, 2016), p. 24.

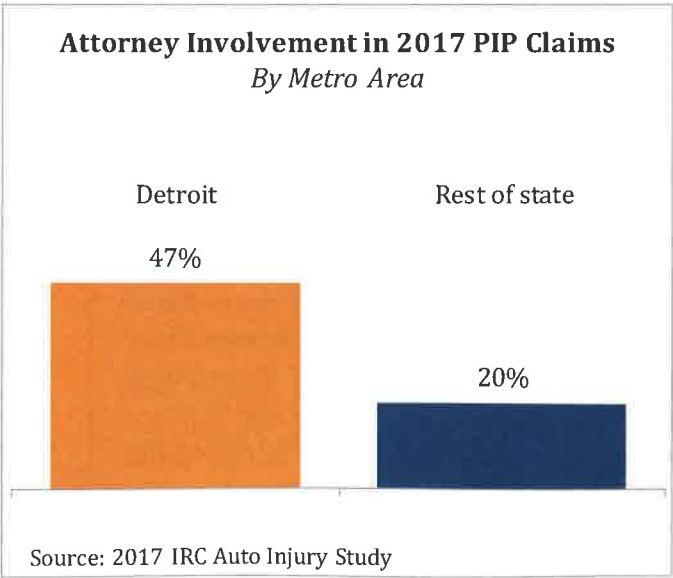
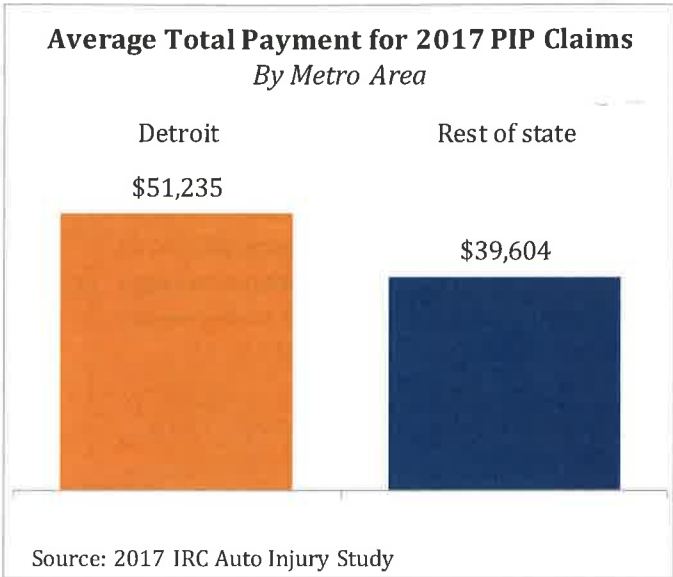
Cost Drivers in Detroit

In nearly every state, the auto injury claims of large metropolitan areas are quite different from those filed elsewhere in the state. On average, claims in metropolitan areas involve higher medical utilization rates, more frequent attorney involvement and lawsuits, and larger settlements. Michigan is no exception. In fact, Detroit often tops lists of the nation’s most expensive cities for auto insurance.¹⁰

Among PIP claims closed with payment in 2017, the average payment among claimants in the Detroit area was \$51,235, 30 percent higher than in the rest of the state.

Claimants in the Detroit area were more likely to hire attorneys and file lawsuits. Nearly half of PIP claims in the Detroit area involved attorneys, compared with 20 percent of claims in the rest of the state. Similarly, the percentage of claims that involved lawsuits was significantly higher in Detroit than in the rest of the state at 41 percent compared with 12 percent.

Similar to statewide trends, court data for Wayne County, Michigan, which includes Detroit, shows an explosion in no-fault litigation. The number of lawsuits involving no-fault claims nearly tripled from 2007 through 2017. No-fault lawsuits accounted for 37 percent of the total civil caseload and more than half of the new civil filings in Wayne County circuit courts in 2017.



¹⁰For example: Kyle Magin, “The Five Most Expensive U.S. Cities for Car Insurance,” March 8, 2018, <https://www.dmv.org/articles/top-five-cities-for-expensive-auto-insurance> (accessed March 29, 2019).

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Auto Injury Claims and Trends

Auto Insurance Affordability: Cost Drivers in Michigan, April 2019, 10 pages.
The report continues the IRC’s examination of key cost drivers in selected states. The specific factors driving high insurance claim costs can vary from state to state. This report looks specifically at injury claim severity, the impact of unlimited benefits, medical treatment, and attorney involvement.

Trends in Auto Injury Claims, 2019 Edition, February 2019, 80 pages.
This report examines the frequency, severity, and loss costs associated with auto injury insurance claims under the property damage and bodily injury liability and personal injury protection coverages from 1990 through 2017. Countrywide and individual state outcomes and trends are analyzed.

Auto Insurance Affordability: Cost Drivers in Florida, December 2018, 13 pages.
The report continues the IRC’s examination of key cost drivers in selected states. The specific factors driving high insurance claim costs can vary from state to state. This report looks specifically at accident frequency, injury claim frequency, medical treatment, attorney involvement, and some impacts from the 2012 PIP reforms.

Auto Insurance Affordability: Cost Drivers in Louisiana, October 2018, 12 pages.
The report is part of a larger body of IRC research examining the issue of affordability by identifying the key underlying cost drivers. The specific factors driving high insurance claim costs can vary from state to state. This report looks specifically at accident frequency, injury claim frequency, and attorney involvement.

Third-Party Bad Faith in Florida’s Automobile Insurance System, 2018 Update, August 2018, 9 pages.
Bad-faith lawsuits targeting automobile insurers in Florida impose a heavy burden on the state’s auto insurance system and auto insurance consumers. This report examines the effect that potential bad-faith settlements have on underlying claiming behavior in Florida. Estimates of additional claim costs attributable to the bad-faith legal environment are included.

Digitizing the Auto Insurance Customer Relationship, August 2018, 44 pages.
This survey report explores the degree to which customers want to interact digitally with their insurer and their expectations when they do so. Expectations when communicating with insurers to accomplish specific tasks are examined.

Countrywide Patterns in Auto Injury Insurance Claims, April 2018, 59 pages.
This closed-claim study is based on a sample of more than 80,000 auto injury claims paid in 2017 and examines trends in claim patterns, including injuries, medical treatment, losses and payments, the claim settlement process, and attorney involvement. The report compares 2017 data with results from similar studies conducted in 2012 and earlier.

Motivation for Attorney Involvement in Auto Injury Claims, November 2016, 41 pages.
This study examines the role of attorneys in the process of settling of auto injury claims. In an online survey, respondents who were injured in auto accidents were asked about their experience, including satisfaction with the claim process, their decision of whether to talk to or hire an attorney, and the services provided by attorneys.

Affordability in Auto Injury Insurance: Cost Drivers in Twelve Jurisdictions, June 2016, 132 pages.
This study identifies and documents the common and unique factors and conditions underlying rising auto injury insurance claim costs in 12 jurisdictions (Delaware, District of Columbia, Florida, Kentucky, Louisiana, Michigan, Mississippi, Nevada, New Jersey, New York, Rhode Island, and West Virginia).

Trends in Auto Insurance Affordability, August 2015, 48 pages.
This report monitors trends in auto insurance affordability across states and over time using the IRC’s auto insurance expenditure-to-income ratio. Using Consumer Expenditure Survey data, the report also analyzes auto insurance affordability trends for low- to moderate-income consumers and inspects differences in affordability trends across various goods and services.

Fraud and Buildup and Auto Injury Claims, January 2015, 48 pages.

This report provides a unique perspective on claim abuse among auto injury claims closed with payment. Using 2012 closed-claim data, it describes the prevalence of fraud and buildup among the five main private passenger coverages and includes an analysis of different types of abuse, estimates of the excess payments attributable to fraud and buildup, and variations by state.

Attorney Involvement in Auto Injury Claims, July 2014, 50 pages.

This report uses data from the 2012 closed-claim study to examine trends in the rate of attorney involvement in auto injury claims over time and across states. It also provides details on the interaction between the presence of attorneys and cost drivers, such as medical treatment and claim abuse, and looks at how represented claimants fare compared with claimants without attorneys with respect to claim payment and time to settlement.

Uninsured Motorists

Uninsured Motorists, 2017 Edition, October 2017, 58 pages.

This study examines trends in the percentage of uninsured motorists in each state based on uninsured motorists and bodily injury claim frequencies from 2013 through 2015. This report includes previous estimates beginning in 1999.

The Potential Effects of No Pay, No Play Laws, November 2012, 31 pages.

This study seeks to measure the impact of no pay, no play laws on the percentage of uninsured motorists. It also estimates the costs of noneconomic damages awarded to uninsured motorists in states that have yet to enact such laws. The findings suggest that not only would a properly enforced no pay, no play law result in a moderate decrease in uninsured motorists, but it may also reduce auto insurance costs.

Other Issues

Smart Home Technology, January 2018, 40 pages.

This study explores public interest in smart home technology and the willingness to accept devices and systems that involve sharing information about the status of the home with an insurance company. It also identifies program features that may encourage consumers to allow insurers to receive information about the status of their home.

Public Understanding of Hurricane Deductibles, June 2017, 40 pages.

This report examines public understanding of the nature and effects of hurricane deductibles and other special deductibles that are applicable to storm-related homeowners insurance claims. The study is based on a survey of privately insured homeowners in five coastal states.

Attorney Involvement in Homeowners Insurance Claims in Texas, May 2017, 36 pages.

This study examines a sample of closed homeowners insurance claims for property damage occurring from 2008 through 2013, exploring the distribution of the number of claims and the dollars paid across regions within the state. The rate of attorney involvement is examined, with particular focus on claims stemming from wind and hail damage. The report documents the spread of attorney involvement across counties in Texas and provides estimates for the impact of continued increases.

The Sharing Economy: Public Participation and Views, August 2016, 58 pages.

This study examines public familiarity with and participation in the sharing economy. Also explored in the report are various insurance-related aspects of the sharing economy. The study is based on the responses of 1,105 participants in a survey fielded by GfK Public Affairs & Corporate Communications.

Auto Insurance Telematics: Consumer Attitudes and Opinions, November 2015, 25 pages.

This report explores consumer attitudes and opinions with respect to auto insurance telematics and usage-based insurance. The report finds that many drivers participating in the programs change their driving behavior in response to information provided by their insurance companies about their driving gathered with a telematics device. The report also confirms that many drivers are concerned about the privacy of their personal information.

Shopping for Auto Insurance and the Use of Internet-Based Technology, June 2015, 39 pages.

This report examines how often consumers shop for auto insurance, how they go about shopping, the choices made after shopping, satisfaction with the shopping experience, and the use of internet-based personal technology when shopping for insurance. The report also looks at differences in shopping behavior and technology use across demographic groups.

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